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FEDERAL-STATE JOINT BOARD)
ON UNIVERSAL SERVICE)
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PUBLIC MEETING)
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Denver Marriott Hotel
Salon A & B
1701 California Street
Denver, Colorado

July 31, 2003
8:30 a.m.

BEFORE:

HON. KATHLEEN Q. ABERNATHY, FEDERAL CHAIR
HON. NAN THOMPSON, STATE CHAIR

ALSO PRESENT:

HON. BILLY JACK GREGG, CONSUMER ADVOCATE, WEST
VIRGINIA
HON. THOMAS DUNLEAVY, NEW YORK STATE PUBLIC
SERVICE COMPANY
HON. JONATHON S. ADELSTEIN, FEDERAL
COMMUNICATIONS COMMISSION
HON. BOB ROWE, MONTANA PUBLIC SERVICE COMPANY

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1 P R O C E E D I N G S

2 COMMISSIONER ABERNATHY: Okay. We'll go ahead
3 and get started, and first of all I want to welcome everyone
4 to this public forum on the FCC's rules about the
5 designation and the funding of Eligible Telecommunications
6 Carriers, or ETCs, in rural areas.

7 We have a great lineup of panelists, and I want
8 to thank all of you for coming here at your own expense to
9 help us, as a joint board, grapple with this issue and for
10 making it a priority. It's certainly a priority for us, and
11 it's very, very complex, and it's going to require all of
12 our best efforts to figure out where we should be headed.

13 I think our ultimate goal, of course, is to
14 ensure the preservation and enhancement of universal
15 service, and in order to do this we need to focus on two
16 primary issues: how we collect contributions into the fund,
17 which is one piece of it, something we're not dealing with
18 today; and then how we distribute the support to the
19 carriers.

20 And on the collection side, as you know, we've
21 got an ongoing proceeding like augment issue on the
22 contribution methodology, and also Congress is looking at
23 it.

24 So today we're going to be focusing on the demand
25 side. We need to consider the impact of competition in

1 rural markets for the demand on universal service support,
2 and we need to make sure that the fund doesn't grow so long
3 that we end up threatening the viability of the system.

4 Now, a lot of the debate surrounding the
5 portability issue has centered on the question of wireless
6 entry into rural markets and the flow of support to the
7 wireless carriers.

8 And I want to make clear at the outset of this
9 joint board proceeding that this is not about whether
10 wireless carriers should be eligible for support. In my
11 view, the rules have to remain technologically and
12 competitively neutral, and all of the providers add great
13 value to rural America.

14 At the same time, though, we have to ensure our
15 obligation is to make sure that universal service policies
16 do not distort competition and that competitors enter rural
17 markets when there's a rational business case to be made to
18 do so and not simply because there may be a federal subsidy
19 available.

20 And I think our discussion today will focus on
21 ensuring that our ETC rules produce rational results from a
22 competitive standpoint and sustainable results from a
23 universal service standpoint and that they are fundamentally
24 fair and equitable to all the parties out there promoting
25 service in rural areas.

1 I want to thank you all for coming, and I'm going
2 to lay the ground rules. We will be keeping close track of
3 the time today, because I do want to keep everyone on time.
4 You're limited to three-minute introductory remarks. It is
5 important that we have sufficient time for the questions and
6 answers that follow. You'll get a warning at the one-minute
7 mark, and then a buzzer will sound at the end of the three-
8 minute time, I think. If it doesn't, I'll cut you off.

9 So I now want to provide an opportunity for all
10 of my colleagues to also make introductory remarks, and then
11 we'll move forward with the panels.

12 MR. GREGG: Good morning, everybody. I will just
13 echo the comments of Commissioner Abernathy. We are here to
14 focus on the outgo portion of the fund.

15 As we all know, the crisis of universal service
16 has been the ever-escalating assessment fee, which is a
17 result of both the income, the contribution base, and the
18 outgo. Today's hearing focuses on the outgo.

19 Our responsibility as the joint board and the FCC
20 is ultimately to make sure that the fund remains sustainable
21 long term so it can continue to bring the benefits of
22 universal service to all parts of our nation.

23 And my hope is that we focus here today on the
24 benefits to consumers from universal service. I know that
25 most of the commenters here today represent companies, but I

1 think we need to keep in mind the injunction of the Fifth
2 Circuit in the ALENCO decision that said the Act promises
3 universal service, and that requires adequate funding of
4 customers, not carriers.

5 Thank you.

6 MS. THOMPSON: Thank you. I'm also very pleased
7 to be here today at this hearing with the full joint board,
8 or as much of them as were able to attend, to enhance the
9 record in this proceeding to help us make a good decision on
10 this very important issue.

11 I join my colleagues from the FCC in thanking you
12 all for being here today to help us figure out the best
13 solution to these issues. I appreciate especially the
14 opportunity to probe further on the parties' positions and
15 to better understand the issues through questions.

16 The issues before us today are ones that are of
17 great significance to consumers nationally and to consumers
18 in my state. The issues here arise from the intersection
19 between competition and universal service.

20 Our challenge as regulators is to harmonize those
21 concepts so that consumers in rural high-cost areas also
22 receive the benefits of competition that other consumers
23 nationwide receive.

24 The time for this proceeding is ripe. There are
25 two areas in my state that are rural under the Act because

1 of population where we as a state commission have lifted the
2 rural exemption and a competitor has entered the market.
3 Consumers have responded positively to that opportunity.
4 Within the last couple of years, over 20 percent of the
5 rural customers in Fairbanks and Juneau have chosen a
6 provider other than the incumbent for local phone service.

7 We'll hear from both of the actors in that drama
8 on the first panel later on this morning. I think this
9 trend is likely to continue and spread to the rest of the
10 country.

11 We have a responsibility in this proceeding to
12 make sure that the essential support for high-cost customers
13 in those areas is preserved, while not creating artificial
14 barriers or artificial incentives in those markets for
15 companies who would also seek to serve those consumers.
16 Thank you.

17 MR. DUNLEAVY: Good morning, and I, too, am
18 delighted to be here and I thank you very much for being
19 here with us today at 8:30 in the morning. Everyone looks
20 so bright-eyed, I'm a little intimidated.

21 I really greatly appreciate the efforts of all
22 those involved in making this hearing this possible, all at
23 the Federal Communications Commission who worked very, very
24 hard: the Commissioners themselves, and all of the people
25 who --, and I offer them and you my sincere thanks.

1 Now, obviously, all of us here hold universal
2 service access or universal access to basic
3 telecommunication services to be a critical public policy
4 objective. Equally obvious is the imperative to keep the
5 mechanisms by which we seek to achieve that objective
6 sustainable.

7 Of particular importance to that endeavor are the
8 issues involving the portability of universal service and
9 the designations of ETCs, which I believe are tremendously
10 important.

11 So I appreciate the opportunity this hearing
12 affords me to learn more about those issues and the possible
13 solutions that may be available. As important, however, as
14 these issues are, I have to note that there's an element of
15 irony in our being here today.

16 I think perhaps Congress included Section 254 in
17 large part because it feared that telecommunications
18 competition might never come to rural America, to deliver
19 new services at affordable prices in those rural areas.
20 Congress also had been told that competition in more densely
21 populated areas would threaten the support that had kept
22 phone service affordable in rural areas.

23 But, here we are today. Precisely because
24 competition has come to rural America. Even to some of its
25 highest-cost areas. Now, perhaps the time has come to

1 question some of our earlier assumptions and to consider
2 whether universal service support, in the future, should or
3 even can serve the same purposes it did before the Act.

4 In any event, I sincerely hope and pray that
5 whatever changes we recommend, and that the FCC may adopt,
6 will not make Congress's fear a self-fulfilling prophesy.
7 Thank you, Madam Chairman.

8 COMMISSIONER ADELSTEIN: Mix it up a little.
9 This is where we're going to mix it up later today, in
10 panels. Speaking of which, I'm really looking forward to
11 hearing from the panels this morning. Thank everybody for
12 being here.

13 We have -- a lot of work went into this, and, I
14 think our Chairs, Commissioners Thompson and Abernathy and
15 the staff have put together such a great balanced
16 representation from all sides. So I expect we'll see a
17 little heat and hopefully that will shed some light on these
18 issues.

19 I just think it's a real top priority, this
20 proceeding on portability, and to get it done quickly is
21 absolutely essential. And Commissioner Abernathy and I had
22 indicated that in a joint meeting recently how critical this
23 is to us -- and I know it is to all members of this joint
24 board -- to absolutely get the right answer.

25 We've got to afford regulatory certainty to

1 competitive ETCs, as well as incumbents, about what the
2 parameters are going to be, because there's a lot of pending
3 CETC requests, and any rules would apply to them as well.

4 It is my colleagues' opinion that it's crucial to
5 ensure the stability of the universal service environment to
6 receive these stresses on the binary product and --
7 sometimes for justifiable reasons, we have to make sure what
8 is and isn't justifiable.

9 We've got to ensure that companies that invested
10 in infrastructure to serve rural America and high-cost areas
11 are not subject to a framework that unintentionally
12 undercuts their ability to perform their critical universal
13 service function.

14 For example, there's some serious questions being
15 raised about the identical support rule. We'll hear about
16 that a lot today. In perusing the testimony, I found that
17 there was a lot of compelling arguments that competitive ETC
18 should receive money based on their own costs rather than
19 the incumbent LECs' costs.

20 For example, there's many examples of a party's
21 right to ask whether it makes sense to provide high-cost
22 loop support to CETCs that don't have and don't use wire
23 line loops. We need to hear from both sides of this issue
24 and get a -- and we're going to hear, I think, a really good
25 discussion of those issues.

1 And I think the FCC should lead by example in
2 this, as we're deliberating on the joint board about what
3 the right answer is, the FCC has pending before it a number
4 of ETC requests and we've got to demonstrate that we are
5 going to be very rigorous about the public interest test
6 that we do in evaluating those requests and, hopefully, that
7 can set the tone for continued discussions of this.

8 At a minimum, I think, in these, we should ask
9 whether granting ETC status to a competitive carrier will
10 bring benefits to a community that it doesn't already have.
11 We've got to find out what impact designation would have on
12 the overall size of the funds and on consumer bills. And
13 look at the support levels.

14 And we have to also determine whether a CETC
15 would serve only the lowest costs customers or if they're
16 doing real universal service in a given service area,
17 because universal service and competition are both two
18 pillars, key goals of the Act and we can't advance one to
19 the detriment of the other, but I think that we can
20 harmonize them to the extent -- greatest extent possible.
21 That's what I'm looking forward to leaning, about how
22 we're going to reach that balance, here today.

23 MR. ROWE: Well, I can't quite say, welcome, to
24 high-cost America, but here in Denver I can certainly say,
25 welcome to the west and welcome to the Rocky Mountains.

1 I will probably submit to the witnesses written
2 questions after the en banc is over that -- I will avoid
3 taking up quite so much of your time and give everyone a
4 chance to respond in more detail.

5 Universal service has been an extraordinary
6 success. I see the results every day in Montana, and that's
7 increasingly true for all of the different elements of
8 universal service. So I reject the idea of this -- maybe
9 too often it's been stated that universal service itself is
10 the problem.

11 But, instead, universal service does face
12 fundamental challenges that need to be addressed in order to
13 preserve and to strengthen the programs that are included
14 within universal service. And this referral, along with
15 ongoing work on contributions by the Commission and in
16 Congress, squarely addresses the most important challenges.

17 I want to say something about my colleagues.
18 This joint board is exceptionally actively engaged, as
19 you've all see that. But I'm really very pleased by the
20 focus that all of the members and staff have devoted to
21 every item that has been referred to this board, and
22 especially I am encouraged with the focus on this
23 proceeding.

24 I also wanted to note the active and, I think,
25 constructive interest among members of Congress who are

1 focused on these issues. That, I think, really has
2 encouraged all of us, all of us in the room, to be very
3 serious about our work. Based on appreciation of these
4 issues and increasing years of experience that we've all had
5 with the programs, really, I am encouraged that all sectors,
6 that all of the witnesses who are here today have offered
7 serious and valuable comments.

8 And that the joint board will be able to move
9 forward to much better outcomes in a number of these areas.
10 And to do it, I think, on a reasonable time frame. We are
11 committed to move ahead on this.

12 I'm going to be interested in quite a few topics
13 today, but some core issues that I would like to hear from
14 all of the witnesses about are the following:

15 The first is the relationship with universal
16 service programs and the issues here to advancing deployment
17 of an access to a robust network consistent both with the
18 goals of Section 254 and the goals of Section 706.

19 In other universal service proceedings -- as some
20 of you know, I have obsessed on the no barriers approach
21 that was originally developed by the Rural Task Force, and
22 that is very much not a platform specific comment that I
23 think is an underlying focus for much universal service
24 work. I would ask witnesses to address that issue.

25 Second, I'm very concerned that they develop a

1 much better understanding of public interest and how to
2 effectuate that. Related to that, how to deal with service
3 expectations. And there are, I think, two sub-issues under
4 the general topic of service expectations.

5 First is, who makes the decision? Do we need a federal
6 floor? Should there be primarily federal standards? Should
7 the FCC or the joint board remain silent and defer entirely
8 to the states based upon their experience and based upon
9 specific records?

10 Or, an approach that I've been suggesting in a
11 variety of contexts since the Act passed -- I have to use
12 the cooperative federalist approach -- involving best
13 practices or particularly the PURPA type standards -- Public
14 Utility Regulatory Policy Act standards -- this joint board
15 could develop. Could then -- I commend to the states for
16 consideration in their proceedings. There is some flavor of
17 that in that -- in Work Out Lifeline Linkup.

18 A second basic issue in this area is whether the
19 more appropriate approach is identical standards across
20 platforms, or whether perhaps even a more competitively
21 neutral approach might be standards that are platform
22 specific and platform appropriate. Again, there is good
23 work and good thinking on both sides of that. I would ask
24 witnesses to address that cluster of topics.

25 The third issue is the economic question of moral

1 hazard considerations. Does doing the right thing in a
2 specific case or trying to achieve a particular goal create
3 incentives for undesirable or inefficient behavior more
4 generally. There have been in this docket some effectively
5 moral hazard argument.

6 Ultimately, I think in the spirit of pretty much
7 254e, my goal is to ensure that the money that's spent on
8 universal service, and particularly on high-costs fund, for
9 today's purposes produce real value for all Americans.

10 The fact the programs have produced value I think
11 is the core reason of Congress and certainly this joint
12 board and very much myself included, have supported these
13 programs so strongly to date. So I very much look forward
14 to today's proceedings. Thank you.

15 COMMISSIONER ABERNATHY: Thanks to everyone on
16 the joint board for those introductory remarks. We'll now
17 move straights towards -- and, gosh, we're giving you an
18 extra ten minutes, guys. We're going to move straight
19 towards our first panel.

20 We divided the panels up according to topic,
21 because, as you can tell from some of the questions that
22 were posed both in the notice as well as by Bob Rowe, we
23 have -- Commissioner Rowe -- there's a ton of issues here,
24 so we tried to divide them up so we can focus each panel on
25 some of the specific challenges.

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PANEL ONE

BASIS OF SUPPORT

The first panel will be looking at the basis of support and it's key issue is, should competitive ETCs continue to receive the same per-line support as incumbent LECs or should it be support be determined on some other basis. I thought what I would do is I'll just simply give your name and your organization, avoid long bios, and we'll go straight into the comments.

I'll introduce each panel as sitting down the line. We'll let all of you talk first before we start to the Q & A part because our questions may change depending on what some of the other parties say or comment in response to what others have said.

So, first why don't we start with Gene Johnsson from OPASTCO, which is the organization for the promotion and advancement of small telephone companies. Mr. Johnsson?

MR. JOHNSON: Thank you, and good morning. I am Gene Johnsson. I am the chairman and CEO of Fairpoint Communications, which is the holding company for 29 rural telephone companies that operate in 18 states. Our operating companies collectively serve about 225,000 customers scattered over 19,000 square miles.

Many of our service areas, such as Columbine Telephone Company here in Colorado, are very high cost,

1 costly to serve. And without the cost recovery that we
2 obtain through universal service support, we would be unable
3 to provide the customers with affordable high quality
4 service -- I think it's the customer that we're really
5 talking about here -- comparable to what's being offered
6 here in Denver.

7 This morning I'm here on behalf of OPASTCO and
8 500 rural telephone company members, all of whom face the
9 same kind of issues that Fairpoint faces as we try to
10 operate in these rural areas. We're pleased that the joint
11 board has initiated this proceeding on support portability.

12 We're very concerned that the rapid growth in
13 funding to competitive ETCs is placing the future viability
14 of the high-cost program and affordable high-quality telecom
15 services to our customers at great risk. One of the
16 important recommendations that we think the joint board
17 should make is to calculate support for CETCs in rural
18 service areas using their own actual imbedded costs.

19 It would help us sustain the high-cost program,
20 and do so in a manner that's consistent with the '96 Act and
21 the objectives of universal service. Basic support on
22 imbedded costs would result in payments that are sufficient
23 but not excessive and specific to each carrier's own
24 circumstances.

25 It would promote compliance with the requirement

1 that support only be used for the provision, maintenance and
2 upgrading of facilities and services for which it is
3 intended. This will provide a much greater level of
4 confidence that consumers will receive some benefit, unless
5 the ETC receives support.

6 In addition, basing support on imbedded costs
7 would promote effective or efficient competitive entry in
8 high-cost areas, since carriers will no longer have
9 incentives to seek ETC status just to receive windfalls of
10 support that exceed their costs.

11 Also, utilizing the same support calculation
12 methodology for CETCs that's used for rural ITECs, ILECs is
13 competitively neutral. On the other hand, providing the
14 ILECs per-line support amount to carriers that have
15 different costs, different level of service, different
16 service areas, and different regulatory obligations and
17 different economies of scale is just the opposite of
18 competitive neutrality.

19 Cost calculations for all ETCs in rural service
20 areas should be based on network costs, not per-line costs.
21 This would ensure that every ETC receives official support
22 to achieve a network infrastructure investment in high-cost
23 areas that the program was intended to promote.

24 We believe the change in methodology for
25 calculating support should be made as soon as the FCC can

1 develop cost reporting requirements for these carriers. The
2 current portability rules have placed the viability of a
3 high-cost program in serious jeopardy and change should not
4 be delayed any longer than necessary.

5 Moreover, there needs to be a high level of
6 confidence at the high-cost program, which is ultimately
7 funded by the consumer, is not providing carriers with
8 needlessly excessive support payments and is being used for
9 its intended purposes by all carriers.

10 Thanks for inviting OPASTCO to participate in
11 this hearing, and I look forward to answering your
12 questions.

13 COMMISSIONER ABERNATHY: Thank you, Mr.
14 Johnsson --

15 MR. JOHNSON: How'd I do?

16 COMMISSIONER ABERNATHY: You did great. I'm so
17 impressed. It's a good start. Well, now I'll move on to
18 Mr. Leonard Steinberg, who's with ASC of Fairbanks, Inc.
19 Mr. Steinberg, welcome.

20 MR. STEINBERG: Thank you very much. Obviously
21 my name is Leonard Steinberg. I'm general counsel of the
22 Alaska Communications Systems. Thank you for this
23 opportunity to testify.

24 In my testimony, I have tried to focus on the
25 complex reality that universal service involves much more

1 than universal service funding. Many factors must be
2 considered in order to ensure quality services at affordable
3 rates in rural communities.

4 For example, Section 251(f) of the Communications
5 Act exempts rural carriers from unbundling obligations at
6 prices set by the states. Congress recognized that rural
7 communities often cannot support more than one
8 telecommunications network provider.

9 Improper termination of this exemption, which
10 occurred in the case of all three ACS rural LECs, puts
11 universal service in jeopardy.

12 Additionally, where a state commission sets union
13 rates at a deep discount without any regard for the ILECs
14 actual costs or reasonably forward-looking costs, as was
15 done in the case of the ACS rural LECs, universal service is
16 also put in jeopardy.

17 And, of course, the proper administration of the
18 USF is critical to sustainable universal service. When the
19 high-cost fund is used to support competitive ETCs that do
20 not take on any obligations to build and maintain
21 telecommunications infrastructure in high-cost areas,
22 universal service, again, is put in jeopardy.

23 The joint board must recommend several changes to
24 the system not only to preserve the fund, but to protect the
25 availability of quality service to our most rural

1 communities at affordable rates.

2 When a union based CETC takes a customer away
3 from ACS, it also takes away all of the high-cost support
4 ACS was receiving for that line. But ACS's obligation to
5 maintain that line does not cease. At the rate we are
6 going, it is becoming harder and harder for rural ILECs to
7 shoulder their considerable obligations based on their
8 shrinking revenues.

9 We doubt, frankly, that most rural markets can
10 truly sustain competition. We question the benefit to
11 society of supporting not just one, but multiple carriers in
12 markets that would not have any phone service but for that
13 support.

14 But if you are going to support multiple
15 carriers, we believe that support should be based on the
16 cost of the carrier seeking support. In order to receive
17 support, all ETCs should be required to demonstrate their
18 costs and that universal service funds are being used to
19 support services in high-cost areas.

20 Opponents of this proposal might claim that
21 unequal funding is not competitively neutral. But
22 competitive neutrality does not mean blindly disbursing
23 funds regardless of costs. It is understandable that
24 competitive ETCs want equal funding, but when asked about
25 equal obligations, including the obligation to document

1 their costs and build out facilities in high-cost areas,
2 competitive ETCs are not so enthusiastic.

3 ACS believes that competitive neutrality means
4 all companies that receive universal service funding must
5 take on the same regulatory obligations to act as the
6 potential carrier of last resort. That is what they may end
7 up becoming.

8 There's nothing competitively neutral about a
9 CETC windfall. It merely enables competitive ETCs to
10 undercut ILECs on price in the short term, but the ACT
11 requires that carriers use funds only for the purpose for
12 which the funds were intended.

13 In the long term, current funding policies will
14 be used to drive the rural ILECs out of the market and leave
15 behind CETCs incapable of guaranteeing universal service.

16 As stated in a petition we filed with the FCC
17 more than a year ago, we believe disbursement of high-cost
18 loop support to firms that fail to prove they have high
19 loops is inconsistent with the statutes requirement that USF
20 be used for the purpose for which it is intended.

21 While many changes are needed, ACS has proposed
22 one simple reform to the current rules. That is where a
23 CETC serves a customer using UNE's, the CETCs union loop
24 cost can be used as a reasonable proxy for the CETC's
25 unseparated loop costs.

1 Using union loop prices, CETC support can be
2 based on the CETC's own cost, rather than the higher cost of
3 the ILEC. In this way, the Commission can ensure that
4 universal service funds are used for the purpose for which
5 they were intended.

6 Thank you for this opportunity. I look forward
7 to your questions.

8 COMMISSIONER ABERNATHY: Thank you, Mr.
9 Steinberg. I'll now move on to Tina Pidgeon, General
10 Communications, Inc., GCI. Thank you for coming.

11 MS. PIDGEON: Thank you. Mr. Steinberg and I
12 were saying we kind of take this show on the road together
13 quite a bit these days. Thank you to the joint board for
14 including GCI on this panel.

15 GCI is a facilities-based wire line CLEC. Today
16 we offer service primarily using UNE loops and our own
17 switch, but starting next year, we will begin migrating to
18 cable facilities. The markets we currently serve as an ATC
19 range from Anchorage, a community of about 195,000 lines to
20 Fairbanks, of approximately 50,000 lines to Juneau, with
21 approximately 30,000 lines.

22 We serve the whole market, residential and
23 business. We offer a variety of service packages, including
24 a basic service rate at or below the ILEC's. We provide
25 broadband and dial up internet access.

1 And we have offered to share carrier of last
2 resort of responsibilities, where we have more than 35
3 percent of the retail market, which we do in Anchorage.

4 My message is simple. When carriers like GCI
5 compete with the ILEC to provide universal service, we
6 should receive the same amount of support per-line. Equal
7 per-line support was the right choice in 1997 and it remains
8 the right choice today.

9 First, equal per-line support maintains the costs
10 relationship between carriers competing in the market that
11 would exist in the absence of a subsidy. If the ILEC has
12 higher costs but receives a higher subsidy, it has no
13 incentive to become more efficient to compete with the CETC.

14 Second, equal per-line support permits the
15 delivery of competitive benefits to rural consumers. In
16 response to GCI's entry or ability to enter service areas,
17 the incumbent began to offer its own bundled offerings. But
18 these offerings have not been made available in ACS's other
19 service areas where competitive entry has not been approved.

20 Third, paying ILECs and CETCs based on their
21 costs is unworkable. CETCs, even ones like GCI, don't have
22 a network architecture like the ILECs, and there is not USOA
23 or other regulatory accounting system in place for CETC
24 networks.

25 So what should CETC support be based on? With

1 the difficulty unreliable and inconsistent determining of
2 CETC costs, that leaves ILEC support, which can be based
3 either on a model or on the ILEC's costs. I would like to
4 briefly respond to claims made by opponents of the equal
5 per-line support.

6 Where ILECs in particular have framed this issue
7 is to mutually exclusive options between universal service
8 and competition, perhaps in the hopes that they will
9 protected from competition through universal service policy.
10 But equal per-line support simply does not pose the sky is
11 falling scenario that rural ILECs have been selling.

12 First, there is not evidence that competition for
13 supported services poses a threat to ILEC survival. And, in
14 fact, Section 214 provides an express process to ensure that
15 carrier of last resort obligations continue to be met, if
16 indeed a service providers does determine to leave the
17 market.

18 Second, disaggregation plans allow ILECs to
19 establish CETC support according to both high and low-cost
20 zones. Some disaggregation plans may need to be redone as
21 competition develops, but the rules permit for that.

22 Third, as retail competition develops, regulatory
23 transitions may be necessary and can be adopted by state
24 commissions. For example, GCI's proposed retail rate
25 flexibility for the incumbent and to share carrier of last

1 resort obligations under certain market conditions.

2 Fourth, support level shouldn't be a proxy for
3 other concerns to the extent that the joint board is
4 concerned about the level and/or scope of service policy,
5 then it certainly has the option of adopting specific
6 service quality standards that should be applied in a
7 competitively and technologically mutual manner.

8 Finally, ILECs today plainly maintain a cost
9 recovery advantage under the current support basis. ILECs
10 continue to receive total network support while CETCs
11 receive only per-line support once they actually commence
12 service to a live customer. And ILECs do not lose support
13 when they lose a customer to a competitor.

14 If there is inequity in the current support
15 policy, this is it. And anything other than equal per-line
16 support would only exacerbate this disparity.

17 For these reasons, we urge you to retain equal
18 per-line support for CETCs and ILECs, and I thank you for
19 allowing GCI the opportunity to appear on this panel. I
20 look forward to your questions.

21 COMMISSIONER ABERNATHY: Thank you, Ms. Pidgeon.
22 And now we'll hear from David Cosson, who's with the Rural
23 Independent Competitive Alliance.

24 MR. COSSON: Thank you and thanks to the joint
25 board for inviting the Rural Independent Competitive

1 Alliance, or RICA, to appear before you this morning. RICA
2 represents over 75 rural CLECs who are affiliated with small
3 rural ILECs, about 20 of which are USF recipients.

4 This is an extremely important proceeding. Much
5 of the debate has focused on the difference between rural
6 ILECs and wireless carriers and the rapid growth of wireless
7 support. RICA's concern is really the opposite of that.

8 The portability rule, when it's applied to a
9 rural carrier serving a small portion of a very large
10 carrier, where that portion is high cost but the average
11 cost is low, there is no support. RICA's position,
12 therefore, is that cost recovery should be based on the cost
13 of the individual that rules CLEC and/or all CLECs.

14 A myriad of issues in this proceeding. There's
15 very hot debate, not only between the rural ILECs and
16 wireless carriers, but also, of course, the Alaska issues
17 which you've just heard about.

18 RICA proposes a pass between these two points of
19 view, which we hope can lead to, in fact, a satisfactory
20 resolution of the difficult issues and could be consistent
21 with the meaning of the Act and the requirements of the Act.

22 The present system fails the requirements of the
23 Act because there's not rational basis between the support
24 provided to a CETC and its costs or need for support. A
25 cost based system can be developed for CETCs using a

1 forward-looking cost methodology that will provide
2 sufficient support.

3 This would not require, then, CETCs to adopt a
4 CCUSOA or involve intensive regulation. It would adjust
5 support to deal with all the arguments concerning different
6 capabilities, different architectures, and so on.

7 And then, if this cost would be based upon
8 individual studies, if a model is used, the model has to be
9 optional because we've seen what the problems are with the
10 existing models. And costs, of course, should be determined
11 based upon network costs not on lines.

12 So, ironically, although we both represent rural
13 wireless -- wire line -- CLECs, our position is more like
14 that of the rural ILECs except that we believe a forward-
15 looking cost methodology should be used to adjust for
16 competitive process. Of course, it could be a two up
17 process amortization of a difference.

18 Again, thank you for allowing us to appear.

19 COMMISSIONER ABERNATHY: Thank you very much,
20 Dave Cosson. And now we'll turn to Don Wood, who's with the
21 Rural Cellular Association. Thanks for coming.

22 MR. WOOD: Yes, thank you. Good morning. The
23 Rural Cellular Association is an association of small
24 wireless companies that operate in over 135 rural and what
25 they're calling small metropolitan areas -- that's a little

1 grandiose; these are towns, not cities -- spread throughout
2 the country.

3 On behalf of RCA, I appreciate the opportunity to
4 provide information to you. And, as someone who grew up on
5 the family farm, I particularly appreciated -- as you'll
6 probably hear, I'm fairly passionate about some of these
7 issues.

8 The goals of the Act and the realization of the
9 stated goal of providing competitive alternatives in all
10 markets -- it's been a struggle, success hasn't always been
11 easy. And it hasn't always happened as quickly as many
12 people would have liked.

13 And, not surprisingly, it began in the more
14 densely populated areas and it has only begun to move out
15 into the rural areas. Most of the larger carriers have
16 focused on these more dense areas, and it's the smaller
17 carriers like RCA members that are dedicated to providing
18 competitive alternatives in rural America.

19 Before you accept anybody's invitation to tear
20 down the existing mechanism and fundamentally change it --
21 because a lot of suggestions here are fundamental changes --
22 I'd urge you to take a step back and look at where we are as
23 a result of the existing mechanism.

24 Significance in that -- significant investments
25 are being made in rural areas by CETCs. These are

1 investments that would not have been made without the
2 availability of high-cost support and portable high-cost
3 support.

4 Each dollar of high-cost support -- and I was
5 going to say, you know, this is a -- every dollar of high-
6 cost support is a dollar of investment that wouldn't have
7 been made, but that's actually not true, because these
8 dollars of high-cost support are being more than matched,
9 two to one, in fact, sometimes ten to one, by private
10 capital.

11 It's the funding, the universal service funding,
12 that makes the investment feasible. But that's not the
13 limit of the investment that's taking place. These
14 companies are consistently bringing in their own capital
15 into these areas and making these investments. And capital
16 begets capital.

17 A lot of work I do is on rural economic
18 development, and I consistently hear companies talking about
19 the need for wireless services, the need for advanced
20 services when they're looking at investing in a rural area,
21 relocating, opening up a new manufacturing facility, that
22 sort of thing.

23 This is absolutely vital to the people in these
24 areas. They're seeing competitive alternatives, they're
25 seeing the availability of service from a health and safety

1 issue standpoint.

2 This is something that's been kind of run
3 roughshod over in some of the comments, but I think it's
4 absolutely vitally important to recognize that a wireless
5 provider provides coverage throughout an entire area and
6 that provides an opportunity for people to reach family and
7 emergency services that simply does not exist and cannot
8 exist with a wire line network.

9 Now, the per-line support and the equivalency. I
10 don't think it creates a windfall, I think it actually
11 reflects, and accurately reflects, the incentives that were
12 there independently of the funding. And that is, if a
13 carrier has lower unit costs than the incumbent that is not
14 exaggerated under the current mechanism, it's simply
15 reflected.

16 If a carrier seeking to enter has lower unit
17 costs, the ILEC cost is the proper benchmark. That's the
18 right signal to the marketplace. Companies with lower costs
19 will choose to enter because it would be efficient.
20 Companies with higher unit costs will see the benchmark and
21 choose not to enter because it would not be efficient.

22 And as more carriers enter and the potential pool
23 of customers shrinks, the message to the marketplace changes
24 and adapts, and the mechanism is self-adjusting and prevents
25 inefficient entry.

1 Can you make it better? Yes, you can. You can
2 take per-line support to a level of economic cost. It was a
3 decision in '97, it was a decision two years ago, and it's
4 still the right decision today.

5 That will refine the signal to the marketplace,
6 it will provide a better signal, improve the efficiency of
7 entry, limit the size of the funds. Thank you.

8 COMMISSIONER ABERNATHY: Thank you very much.
9 And, finally, we'll hear from David Bergmann, who's with
10 NASUCA Telecommunication Committee.

11 MR. BERGMANN: Good morning. As -- I'm David
12 Bergmann. I'm an assistant consumers counsel with the Ohio
13 Consumers Council, but for today's purpose, I'm the chair of
14 the NASUCA Telecom Committee. NASUCA is the National
15 Organization of State Utility Consumer Advocates.

16 We represent the customers who are intended to be
17 the beneficiaries of the universal service provisions of the
18 Act. We also represent the customers who pay for the
19 universal service fund. So we have, we believe, a unique
20 interest here.

21 And in expressing that interest, I guess I would
22 like to mangle Shakespeare a little bit and say to my fellow
23 panelists, a pox on some of the rooms of your houses,
24 because there are some of the rooms of some of your houses
25 that we like.

1 We are concerned both about the adequacy of
2 support and about the total cost of the fund. And, in this
3 regard, I would say that we are especially concerned about
4 the growth in wireless eligible telecommunications carriers.

5 There is a potential for that growth to surpass
6 much of the growth that has already occurred. And under the
7 current conditions of the management of the fund, it would
8 be crazy for a wireless carrier not to seek eligible
9 telecommunications status.

10 Over all, our position is that we support using
11 each carrier's cost for support capped at the incumbent's
12 cost. We also support limiting support to primary lines,
13 which, of course, is the subject of the next panel.

14 And we support an effective definition of the
15 public interest that does not focus on supporting
16 competition for competition's sake, but assures that
17 customer will receive high quality service regardless of
18 their ETC, and that is the third panel.

19 We also support requiring ETCs to provide equal
20 access, which is something that has been deferred to this
21 portion of the case.

22 The -- in response to some of the remarks of the
23 other panelists here, I would emphasize that it is our view
24 that universal service support does not represent cost
25 recovery.

1 That you -- that our view is that we should use
2 embedded costs only for the smallest rural companies and
3 that carriers with high costs are to be supported rather
4 than using the high-cost carriers costs to support all of
5 the other carriers.

6 That's all I have to say at this point. Thank
7 you.

8 COMMISSIONER ABERNATHY: Thank you very much.
9 And, again, thanks to the panel for staying on time. And
10 we'll now start with the questions from members of the joint
11 board. I think what we'll do is we'll start down with
12 Commissioner Adelstein, work our way down, and then go back
13 around.

14 We're going to try and start with a question and
15 a follow-up. I don't know what we're going to do about
16 multiple compound questions, but we have spoken to
17 Commissioner Rowe. But, we're going to start down there and
18 see how many he starts.

19 You're going to get plenty of time. And then
20 we'll have follow-ups and, of course, I think that if any of
21 the commissioners have a follow-up to one of the other
22 commissioner's questions, you should feel free to engage at
23 that time so we don't have to go back to it.

24 Commissioner Adelstein?

25 COMMISSIONER ADELSTEIN: We heard a lot about